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The Pace Student

For the Person of Receptive Mind

June, 1926



DR. JOSEPH J. KLEIN, C. P. A.

President

New York State Society of Certified Public Accountants

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The Pace Student

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Accountants in Public Service

THE public accountant performs an especially valuable service in public affairs. As a member of a board of school trustees, in addition to his contribution in matters of general policy, he is able to furnish his co-trustees with technical assistance with respect to the analysis of expenditures, the maintenance of buildings and equipment, and the control of supplies. In a chamber of commerce, he performs an especially useful service as chairman or member of committees on budget, taxation, arbitration, bankruptcy, and other committees whose work relates to business or finance. In a money-raising campaign, he gives professional advice as to organization and the safeguarding of funds. In a church, he is able to bring order and system into all matters financial. In a club, he renders a useful service in knotty problems related to the adjustment of dues, charges, and the control of expenditures. In every kind of organized community effort, the accountant finds an opportunity to serve, and incidentally to extend in a favorable way his personal acquaintanceship.

Herein lies the greatest opportunity for the development of a favorable public opinion with respect to the accountant and his work. If he is to receive the same recognition as the lawyer and the physician, he must render, like the members of these older professions, a community service as well as a service to individual clients. The practice of a profession imposes community, as well as individual, responsibilities.

EXCLUSIVE American publication of Colonel Robert H. Montgomery's address, "Legislation for the Profession," to be delivered at the International Congress of Accountants in Amsterdam in July, will be made in the July and August issues of THE PACE STUDENT.

The American branch of the profession is fortunate thus to be represented by Colonel Montgomery, who will also act as chairman of the delegation of New York certified public accountants, who will attend the convention.

Colonel Montgomery's views, as expressed in this notable and exhaustive paper, will undoubtedly influence future accountancy legislation in this country and throughout the world.

—THE EDITOR

Brevity in Reports

"THE older the accountant the shorter the report," is a statement that states more than half a truth. The accountant with brief experience is likely to make his reports over-full. Significant facts are often obscured by voluminous detail. The business man more often than not is brain-weary and eye-weary—he does not like to dig, like an archaeologist, for his facts.

The accountant progresses with the years toward a briefer and a better report—away from insignificant detail and classifications and toward the presentation of significant facts and tendencies—facts and tendencies brought out stark and unrelieved for the attention of his client.

With experience and brevity come the omission of baby ribbon, fancy seals, and heavily embossed stationery. A good report, like good wine, needs no bush.

The Controller

THE controller is becoming the outstanding fiscal officer of the modern corporation. He is likely to be the right hand man of the board of directors, auditing and controlling expenditures, supervising accounts, analyzing costs, advising upon wage, pension, and personnel problems, and devising methods of current and long-time financing. Oftentimes, he divides these responsibilities with the treasurer; but in many organizations the controller is the real power in financial matters, while the treasurer merely supervises pro forma operating detail in connection with the receipt and disbursement of cash. Sometimes, of course, the title of controller is not used, and the treasurer performs all the details enumerated. No matter what the title may be, the responsibility for financial affairs is localized to a responsible officer, who is often the outstanding figure in the financial affairs of the organization.

The work of the controller is now so well recognized and defined, and it calls for such high professional and business qualities, that the controllers of the country should organize, locally and nationally. In this matter they should follow the example of the credit men, who are closely associated with them in organization work, and the example of the public accountants, whose professional training is similar to that of the controllers. We suggest, therefore, the organization of local societies of controllers, and an affiliation of these societies in an organization to be known as "The American Society of Controllers."

This idea is passed along for what it

may be worth to the many hundreds of well-known controllers who were at one time students in Pace Institute, and to all other controllers who are interested in the benefits to be derived from professional association.

Economic Effect of English Strike

FOR a hundred years or more, labor-of-the-old-order has fought production-of-the-new-order—that is, the hand-worker has fought the machine which has threatened his craft and his livelihood. Few people realize that the recent general strike in England is the latest of these economic struggles.

At the bottom of the trouble in England, so far as the mining industry is concerned, is limited production, with coincident low wages and unemployment. The fear that modern machinery would take away jobs has held back the production which would have reduced the price of coal for local industry, and which would have produced greater export shipments for competitive markets. The reorganization of the industry is now to be attempted on sound economic lines, labor-saving machinery is to be introduced, and another of the stumbling blocks in the way of economic progress will be removed.

The acceptance of the labor-saving advantages of the machine is only the beginning of modern industry, which finds its economic flowering in standardized or mass production. In this respect America leads, and other commercial nations that would survive must follow suit. Visit, if you will, the docks in New York harbor from which the freighters sail to the four quarters of the world. On every dock will be found the standardized parts of an automobile which is wanted on every two-track trail or road in the civilized world—wanted because of the low price made possible by standardized operations. While this automobile is the outstanding expression of American

standardized production, it travels in company with electrical apparatus of all kinds, with musical instruments, with petroleum products, and with a thousand other products of standardized effort.

The individualism of the old order is being sacrificed, and from the artistic viewpoint there are many reasons why hand-made furniture, fabrics, and tools, are preferable to the machine product. From the utility viewpoint, however—the viewpoint of the improvement of general standards of living—the modern method is vastly preferable and must win out. The costs and the discomforts of the great strike will be fully justified if it has brought home to the English people, laborers and capitalists alike, the necessity for the fuller use of the machinery and the organization mechanism of standardized production.

Practice Does Not Make Perfect

PRACTICE does not make perfect, if we mean by practice mere repetition. A person who drives an automobile incorrectly will not improve merely by reason of repeating indefinitely his errors. The law of habit tends to fix a bad habit as well as a good habit.

Together with practice, one must have an ideal of correct performance. Practice undertaken with an ideal in mind will inevitably lead to improvement.

All of which applies very specifically to the matter of report writing. If the accountant can acquire by study and reading a high ideal of technical English—an ideal that includes both brevity and clarity—he will unconsciously work to this ideal in preparing his findings. Likewise, if he has in his mind's eye a high standard of excellence with respect to technical form of statements and schedules, and with respect to coincident matters of paper, type, and the like, he will gradually develop his reports to a point where they will serve their full purpose. Mere repetition—the making of many reports—

without the creation of such ideals and the striving for such ideals, will not lead to improvement.

The Study of Economics

THE accountant should be versed in both the theoretical and practical aspects of economics. So should the lawyer, who often advises his clients with respect to major problems of finance and organization; and so should the business man, who ventures his assets upon the uncertain tides of supply and demand.

Should the accountant acquire his knowledge of economics in the course in which he makes specific preparation for the practice of accountancy? We have here a debatable question. The lawyer does not acquire his knowledge of economics in his professional law course, for the simple reason that all the time available, and more, is needed for the acquisition of the specific things essential to successful law practice. Could not the same be said with respect to accountancy, provided an adequate preparation were afforded for accountancy practice?

As to whether the accountant should possess a knowledge of economics, there can be no question—he should not work unprovided with the equipment to be obtained by a study of this vital and fascinating subject.

Managing the Boss

IN order fully to succeed as an executive, you must direct the people below you, you must get along comfortably with your equals in rank, and you must influence and measurably manage the people above you. The real art of executiveness is in managing the man above you—in bringing him to your way of thinking with respect to your methods, your policies, and your income worth. A book could be written on the highly important but little understood art of managing the boss.

Dr. Joseph J. Klein, C. P. A.

Biographical Sketch of Incoming President, New York State Society of Certified Public Accountants *By ALLEN CHAFFEE*

Dr. Joseph J. Klein, who in May was elected president of the New York State Society of Certified Public Accountants, the largest state society of the kind in the country, illustrates his own doctrine of success. College first, if possible, he told me, then some practical bookkeeping experience, along with the more technical training, -after which the beginner should try for a post, no matter how small, on the staff of a reputable accountant. But he should also give part of his time to public and social movements.

Dr. Klein himself is well known both for his educational work and as a writer on taxation. He is senior partner of Klein, Hinds & Finke, certified public accountants, at 19 West 44th Street, New York City, and also has offices in Boston, Albany, and Washington, D. C.

His 'phone rang as I entered his office, and I had time to analyze the pleasantly colorful effect of the room. Tapestry upholstered chairs, silk curtains at the windows, a Chinese desk lamp, bookcases, and a large portrait of Lincoln. Framed photographs of Mrs. Klein and the two boys—a jolly chap of six or so and one of sixteen months. Dr. Klein is down in "Who's Who" as having been born in New York City in 1884, and it takes a half a column to list his degrees, offices, clubs, and accomplishments.

"Don't you ever play?" I asked, as he set down the receiver.

"I wouldn't dare admit," he laughed,

"how little" I've loafed these last two years. But until a few years ago, I used to go on half a dozen hikes a year, climbing mountains, besides getting into the woods for a few weeks in summer, fishing in the northern part of the state or in Canada. On these trips my companion is Terry, an Irish terrier my wife named for Ellen Terry.

"Now that my bones have got to creaking, I play golf. Then we have a new indoor sport this summer—I've been trying for a number of years to write a book on taxation. Now Mrs. Klein, who was Janet R. Frisch, of Cornell, 1912, and took her Phi Beta Kappa key in her Junior year, is handling the literary editing of it, and she makes me put in two evenings a week on the manuscript."

Early Education

He went on to explain: "It was mere chance that I took a course in bookkeeping the spring I turned fifteen. It happened that in those days you couldn't get into a New York high school except in June, and I graduated from elementary school in February. Now my principal had an elementary evening school whose attendance had fallen off badly, so he asked me (and a number of others) to 'save his life' by bringing up his attendance roll.

"It came in very handily. Saturdays and vacations, and after I left college, I kept several sets of books, most of them for a Tammany district leader and a contracting firm.

"In my Junior year at the College of the City of New York, two things happened. Charles Waldo Haskins was just organizing the work of New York University, and he spoke to us in chapel, pointing out the glories and opportunities in the then very new profession of public accounting. I had read and mastered the three or four books that constituted, at that time, the entire American literature of accounting above the grade of the most elementary form of bookkeeping, and two of those books were British. I had solved all the problems in those books, and shortly after, I took advantage of Mr. Haskins' invitation to the students and went to see him. Now his talk had given me the idea of leaving college to enter at once upon the new profession, but to my surprise he advised completing the college work before taking up accounting. He stressed the value of the basic education.

A Hard-Boiled Class

"That same year I discovered quite accidentally that there was such a thing as an examination for teachers of bookkeeping in the evening schools of New York City, and I took the examination; and (modestly), as there was practically no competition, I managed to head the list. I was assigned to teach bookkeeping to recalcitrant young students of 'Gas House Murphy's' district who were in attendance under legal compulsion. They were a tough bunch, but I managed to survive and hold my

job by talking college athletics and citing athletic statistics, such as baseball averages.

"After graduating from college and trying to find my place, I taught business subjects in the high schools of the city and did some lecturing at the University, met the leaders of the accounting profession, and among them the sainted John R. Loomis and Edward L. Suffern, and decided to make public accounting my life work.

"In the twenty years since I have been connected with public accounting, such progress has been made that it has truly found its place among the learned professions. The literature now available is of a distinctly high order. Colleges and universities, following the lead of such pioneers as Pace Institute and other private organizations, have recognized the necessity of providing for the needs of commercial education.

"Only fifteen years ago (as I was the first to discover), there was no available organized means of training commercial teachers, and it led me to organize the first course in the subject at the College of the City of New York. There was no text-book on the subject, but I wrote one, in collaboration with one of the ablest minds in America, Dr. Joseph Kahn, at one time professor of philosophy at City University and now an attorney.

Leaders Were Self-Made Men

"New York University followed, several years later, in the wake of City College, and similar courses in the pedagogy of the subject are now offered throughout the land.

"When I first entered the field of accountancy its leaders were self-made men, to most of whom had been denied the advantages of college training. The more glory to these pioneers and founders, that they attained such great heights, without the aid, in many instances, of advanced formal training. In very recent years, the professional opportunities in accounting have begun to include the college and the university, so that the coming generation will, in my opinion, be recruited to an even greater extent from the ranks of college students. This is a very hopeful sign. College trained men, in many instances, can acquire the technical knowledge of accounting and auditing in a much shorter time and in a more practical form elsewhere than in our universities; but undoubtedly, as in the case of law, medicine, and engineering, the universities and colleges will catch up with

private initiative and enterprise. But such is not as yet the case.

Basic Education

"I have had occasion to speak to many school groups on how best to prepare for success in the field of public accounting. Mature judgment leads me to emphasize the advice frequently given by me, *first*, to get as broad an academic education as possible, giving time and attention first to English, then to economics, then to mathematics.

"Toward the end of the academic course, and preferably before its completion, take up courses in bookkeeping and accounting. If possible, opportunity should be found for actual experience in the keeping of sets of books, the more the better.

"After at least a year's bookkeeping experience, and after an extensive study, either at the same time or immediately thereafter, of accounting, auditing and business law, I advise a man to seek the inestimable advantage of association, in no matter how humble a capacity, with a reputable practitioner.

"And if the beginner finds himself on the staff of a disreputable accountant, he should run away from his position as from a thing defiled.

"The young professional man should also give time and energy to public and social movements, secure in the knowledge that such service is never unrequited. But, as in other professional fields, an appreciable part of his compensation must come in forms other than that of the coin of the realm.

Material Rewards

"Nevertheless, to the man of ability, perseverance, and uprightness, the ma-

terial awards are at least as high as those offered in any other professional field. Whether public accounting, once entered, shall remain a life work frequently depends on chance. Heads of many large and influential organizations, governmental and private, are ably manned by men who were once accountants. The opportunity in this field is worthy of a man's best endeavors, and honest and able service in accounting holds forth promise of rich reward."

As Dr. Klein's voice grew eloquent, I knew he must be an effective public speaker. He is a member of the National Republican Club, the Mecca Temple, The Economic Club, the Norwood Golf Club, the City Club, and a director of the City College Club. He was formerly editor of the federal taxes department of the *New York Globe*. He is a member of the American Institute of Accountants, of the American Economic Association, of the Merchants' Association, and of the New York University Philosophy Society. He was an expert on the Council of National Defense, has written "Elements of Accountancy" (published in 1914), "Principles and Methods in Commercial Education" (1915), "The Student's Handbook of Accounting" (1915), and "Bookkeeping and Accounting" (1917). He took his B. S. in 1906 at the College of the City of New York, his M. A. in 1909, and his Ph. D. in 1910, at New York University. In 1911 he became a C. P. A., in 1923 a member of the New York Bar, and has lectured on federal and state taxation, auditing, and accounting systems at both institutions. He married in 1918, and his home is at 440 West End Avenue, New York.

PACE ALUMNI ASSOCIATION

THE first regular Fall meeting of the Pace Alumni Association will be held in September. Plans are now being made to start the season with an unusually interesting program. A speaker of national prominence, Cordes and Marks, and songs by Joe Myer will be among the features.

A more detailed announcement, giving the date of the meeting, and the name of the speaker will appear in an early issue of *The Pace Student*.

F. M. SCHAEBERLE, *Executive Secretary*

Specialized Ability—Its Vocational Import

*“Jack of All Trades” Plays a Losing Game
The “White Collar” Job Success a
Matter of Logical Self-development*

BY “specialized ability,” used in the heading of this article, I mean proficiency in some particular type of work. You know there is an old saying to the effect that a man is a “Jack of all trades but master of none.” This saying is used more often than not in contempt, in order to describe a handy man who can give a fairly good account of himself on any task that comes along, but who is not thoroughly well trained in any specific vocation. The Jack of all trades has no specialized ability.

In days gone, thoughtful parents insisted that each son should learn a trade. A boy was often required to learn a trade even if he did not expect to follow it, on the theory that a specialized training was good to “fall back upon” in case of necessity. The basic idea of specialized ability is not new.

Division of Labor

Adam Smith, who laid, one hundred and fifty years ago, the foundation for modern economic thinking, called attention in his day to what he considered to be the extreme division of labor—a division that expressed itself in the various trades and occupations. But the conditions in this respect in his time—say at the time of our American Revolution—were simple indeed as compared to the conditions now existing. Since that time we have had the introduction and development of steam power and the use of power-driven machinery. More development, in fact, has taken place with respect to specialized jobs in the last century and a half than took place in the two thousand years preceding the time of Adam Smith.

The result is that the percentage of people who are specially trained for particular trades and callings has steadily risen, and the position of the person who has nothing to contribute but

general and non-specific ability has become progressively worse. Most of us are specialized workers of one kind or another.

In the world of physical work we have the various crafts, such as printing, lithography, wood-carving, decorating; we have the various trades, such as bricklaying, plastering, carpentry, plumbing; we have factory jobs, each of which requires a knowledge of how to operate a machine or to carry out a certain process; and we have common labor. A comparison of the wage scale of the common laborer with that of the craftsman, discloses the fact that the person who has mastered a craft or trade earns two or three times as much as the common laborer—say \$50 to \$100 a week, instead of from \$20 to \$30 a week—and the craftsman performs his work under more pleasant and agreeable conditions than the common laborer.

I shall not dwell here especially upon the conditions of work in the various crafts and trades. I do desire, however, to call attention to the fact that they afford many attractive work opportunities in which the worker can hope to earn at the rate of from \$2,000 to \$5,000 a year, with relatively short working hours and pleasant conditions of work. Many a father and mother might well investigate conditions in the various crafts and trades before deciding that the only desirable opportunity for their son's success lies in a so-called “white collar” job. I should personally prefer the lot of a skilled craftsman to that of a general clerk in an office.

The “White Collar” Job

When we come to the professions and business office employments of various kinds—“white collar” work in general—we find that the work is divided into specific callings, much as it is in

the world of technical affairs. There are, for example, the three original professions of medicine, law, and theology, as well as many of more modern development, such as dentistry, engineering, architecture, and accountancy. Each one of these is a highly specialized calling which requires for its practice years of professional or technical study, as well as years of experience.

It takes something like six or seven years for a boy to become a full-fledged physician after entering a medical school, and this training should be preceded by college work and high-school study.

In order to qualify for law, one must have at least one year of general college work, three or four years' work in a law school, and a year or two as a law clerk.

In accountancy, it takes at least five years before a person can become a full-fledged practitioner with the certificate of certified public accountant. There must be five years of experience, during which time it is possible to carry on the required theoretical study in evening-school classes. This profession differs somewhat from the others because of the fact that there is a very large demand for accountants in private practice; and for this big division of the field there is no set requirement, such as the attainment of the C. P. A. certificate, for admission to practice.

All these professions, and others such as dentistry and engineering, are highly specialized callings, requiring the possession not only of good general education, but combined theoretical study and practical experience.

In business employment we find many positions requiring highly specialized training. As already indicated, the person who becomes the chief accounting officer of a modern organization, occupying the position of controller,

auditor, or treasurer, must have a theoretical training about the same as that required for the public practice of accountancy.

The management of credits is also a highly specialized calling, requiring a knowledge of law and accounting similar to that possessed by the accountant. The importance of this highly specialized and remunerative employment is indicated by the fact that there are 30,000 members in the National Association of Credit Men. This organization has recently raised a fund of a million dollars or more for the prosecution of "credit crooks."

A calling little known to the public, but one that is important in the larger organizations, is that of the management of traffic. Nearly every large organization has a specially trained man who must handle rate and shipment problems and, in general, direct the movement of traffic along shipping lines that are the most direct and least expensive. In addition to a knowledge of business organization and certain phases of accounting, the traffic manager must be a specialist in railroad and steamship rates and in motor transportation matters.

As we come down the line to the less important positions in business, we find that some positions call for a knowledge of stenography and typewriting, others for a knowledge of typewriting only, others a knowledge of the use of the adding machine or a mechanical bookkeeping device, others a knowledge of filing, of recording cost data, of handling cash, or of some other specific task.

When the work of all these specific positions is taken care of, there is left a class of work which can be performed by one who has merely general office ability—that is, by the general clerk—the common laborer of the office world.

There is nearly always a demand for people who have highly specialized abilities of the various kinds enumerated. A person who is a thoroughly well-trained stenographer has a definite work capacity that is needed on every hand. The same is true of a well-trained file clerk, of a well-trained librarian, or of a good bookkeeper.

Because of these facts, it is of first importance for any one who is to earn his living, either in an office or out in the world of physical work, early to select some special work in which to become technically proficient. In this work he should become proficient, by reason of day or evening study and

experience, at the earliest possible moment.

But we have stated so far only the beginning of the vocational problem. Nearly every one of my readers is already working in some specialized job. He may be a craftsman, or a stenographer, or a bookkeeper, or a credit man, or he may be specifically trained for one of the other innumerable positions required in modern business. All this being true, the most insistent personal problem is advancement from a specialized job of a relatively low grade to one that affords greater opportunities with respect to work and income.

If a person thus finds himself or herself performing specialized services in a low-grade position, he should make a survey that includes a review of his personal abilities and aptitudes and of his vocational opportunities. Such a person may very well ask himself the following questions:

Is there a vocational relation between the specialized work that I now perform and the duties of a position higher up? If so, what specific preparation can I make, by evening study or otherwise, for the higher position?

Is my general education sufficient to serve as a base for the technical study and the performance of the duties of the higher position?

Academic Background

In all the professions, and in all specialized business positions of an important nature, specialized vocational ability must be supported by general education. A person with limited academic education soon finds that he has a two-fold problem—the development not only of additional ability to perform the specific duties of a job higher up, but also of a knowledge of English, mathematics, the natural sciences, history, and of other subjects, a knowledge of which is necessary in order to support a career which calls for the exercise of the higher powers of reasoning and for daily contacts with people of liberal education.

Oftentimes, I find it necessary to advise, first, the study of some specific vocational subject for a limited time, in order to increase income; secondly, the suspension of such study for a period of time during which the necessary academic foundation is obtained; and, thirdly, the resumption of technical study. It is often necessary thus to plan a vocational program extending over several years.

I can not give full consideration to all the problems involved in laying out and in carrying through a vocational program of self-development. I have attempted merely to lay a general basis for articles that I shall later give on various phases of vocational development.

Age of Specialization

I wish, however, to emphasize the fact that we are in an age of extreme specialization in which there is limited opportunity for general workers who have no special training in a trade or other calling; that, while it is comparatively easy to acquire the limited knowledge necessary to write shorthand, to run a typewriter, to keep a simple set of books, or to run an office or factory machine, it is a serious undertaking to acquire the technical training necessary for the successful practice of a profession or to fill one of the higher administrative positions in modern business.

Vocational Objective

I wish to emphasize, further, the fact that the person who occupies one of the minor specialized positions, if he would move upward, must determine upon his vocational objective; and he must then, by specific preparation along technical lines, and by making all necessary coincident study of academic subjects, prepare himself step by step for the responsibilities of the position higher up. The whole matter of personal success and advancement is a problem that should be studied and solved in the same matter-of-fact way that an engineering problem is studied and solved. There is plenty of work of all kinds to be done; the rewards are ample; and almost any man or woman possesses abilities that can be shaped and developed in such a way as to bring a substantial measure of success, provided a workable plan is formulated and carried along over a term of years.

THE dedication of the new building of the College of Commerce and Business Administration of the University of Illinois at Urbana, on May 6, 7, and 8, furnished an opportunity for an interesting conference on collegiate education for business. Representatives from many of the colleges and universities were present at the invitation of the University of Illinois officials.

Organizing a Personnel Department

Outline of Personnel Work for Large Corporation Detailed Answers to Specific Questions General Nature of the Work

MODERN American industry is characterized as much by the scientific study of personnel and its provision of medical service, training courses, athletic fields, and old-age pensions as it is by mass production and may interest our readers to know the details of an instance in which a controller, a Pace man, has been charged with the responsibility of getting a work of this kind under way for one of the largest corporations of the country.

This controller, in seeking advice of the editor in this matter, was referred to Oscar M. Miller, for years a member of the Pace staff, who outlined the essential provisions of personnel work in the following letter, which is a noteworthy contribution on this subject.

"Your questions, which I shall answer seriatim, are as follows:

The Questions

"1. If a personnel department is maintained, what is the nature of the organization?

"2. What records are kept?

"3. What powers are vested in the personnel manager as to fixing wages or salaries?

"4. What powers are granted as to hiring or discharging; also to what extent transfers of employees are made from one department to another?

"5. Does the personnel manager have a voice in salary increases, or does he make any suggestions in this direction?"

The Answers

"(1) The nature of the organization of a personnel department must depend very much on the nature of the business, the location of the employees—whether widely scattered in small units or closely congregated in a large institution. But whatever may be the simplicity or the

complexity of the personnel organization, it should touch every phase of personnel from the first step of interviewing for selection to the last one of laying off, discharging, or retiring on pension.

"(2) It is easy to overdo record keeping, just as it is easy to keep too few facts. There should be a sufficiently complete record of each employee to show when and at what age he entered the company's employ, his home address, names of his nearest relatives; and in these days of workmen's compensation laws, there should also be some special facts recorded as to his health conditions at the time of employment.

"As his period of employment continues, the promotions should be recorded and also unusual absences on account of sickness, accidents, leaves of absence, or layoffs. Usually absences under thirty days are not recorded.

"If the policy of your company is that of promotion from within for all responsible positions, then from the very beginning there should be periodic entries on the employees' record which some people call "rating." Whatever definition may be used, those entries are intended to show the growth in ability, in judgment, and in knowledge of the business, as well as the attitude of the employee toward the institution and its success.

"(3) Small personnel managers feel that they should have authority to fix wages or salaries. A thoroughly qualified and experienced personnel manager thinks differently. That they should have a very close relationship to the fixing of wages or salaries goes without question, for the personnel manager in any organization should be the one most conversant with all the vocations and jobs in the place and their relation to one another in dollars and cents values. Also, he is the one who should

know the labor market on the outside, not only in the community, but in the state and in the nation.

"Therefore, he should be on any committee within the organization that has to do with the fixing of wages or salaries; if no such committee, then he should be called into consultation with each department head so that the recommendations from the various departments will be in harmony.

Hiring and "Firing"

"(4) With a qualified personnel manager at the head of such a department, no department in the institution should be permitted to hire or discharge except through the personnel department. That needs a word of explanation. No department manager should feel obliged to take applicants referred to him by the personnel manager. But if the personnel manager has had experience in sorting applicants, the department heads will very soon find that they do not need to have more than one or two applicants come to them to fill a vacancy which they had reported to the personnel department. The personnel manager will send applicants who he knows can do the work, and who he feels will please the manager of the department to which he sends them. He must take into account personal equation as well as the job to be done. The department manager's O. K. on the slip handed to him by the applicant, when returned to the personnel manager, will show the personnel manager that the applicant has been hired.

"Conversely, discharges should go through the personnel department, each department manager merely stating to the employee that so far as that department is concerned they have no further use for him. The personnel manager may discover that it was a wrong placement in the first place, and that an employee who cannot make good in

one department and is therefore discharged therefrom, will, if removed from that department without stigma, go into another department with zeal and a determination to make good. This saves the cost of turning a trained employee out the gate to take in a new one for whom much expense in the way of supervision and training must be made.

"Transfers from department to department are always necessary, because most industrial plants have peak periods in one department to correspond to low activities in other departments. When personnel departments are watching these matters carefully, transfers can be made in such a way as to really cause them to be considered almost as promotions. The old method has been to let the department with surplus help turn it out the gate and the department needing more help hire new folks at the gate—a very wasteful process.

"(5) My answer to number 3 covers this question to some extent. It is a wide-awake personnel manager that

discovers able employees who are pocketed, and who are, consciously or unconsciously, retained in a pocket of a department for their value in that department, when they would be of greater value to the organization as a whole if transferred or promoted to another department. I suppose this situation results from the fact that department managers in most organizations still have some of the selfish instincts; each one desires to retain for his own department those who were trained by him, and who have turned out good work under him. It is not fair for employees to have their future entirely circumscribed by the attitude of their department head, and the personnel manager should be authorized by the chief executive of the company to search out employees qualified for transfer from department to department, to positions of higher responsibility.

Employee Representation

"I now see that I have dictated at

greater length than I had anticipated when I started the letter, and I believe there is only one principle of industrial relation that might well be made the subject of an additional paragraph. In industries of considerable size and much prominence, it is no longer an experiment to deal directly with the employees in the matter of wages, hours of labor, and other conditions of employment. There was a time when employee representation was looked on with much questioning on the part of the old type manager. I believe that time has gone by, but this sentence does not mean that I consider employee representation applicable in all industries. Certainly one would be justified in making a careful study of the conditions in his industry to determine whether employee representation should be considered as a possible additional factor in the improvement of relations between employees and managers. In this long letter I have been able only to hit the high spots in the matter of personnel management."

Are You a Vocational Prophet?

Early Traits and Hobbies Likely to be Misleading as School Records Form More Reliable Basis for Determining Occupational Training

MANY mistakes are made in the matter of advising young men and young women with regard to the selection of their occupations, because of the lack of an understanding on the part of their parents and friends—and, it may be, on the part of their teachers—of certain well-settled principles of vocational guidance.

One of the commonest of these errors is to conclude, because a boy shows at a certain age a very considerable interest in a particular subject, that he should follow a vocation related to the thing in which he is interested. For example, many a parent has concluded, because a boy of age 15 or 16 is interested in radio and devotes a good deal of time to it, that he should become an electrical engineer. In the same way, if a boy shows a rather unusual interest in drawing, it may be concluded by the parent that he should become an artist.

It is well known that a developing youth comes up through various stages, during each of which his interest is likely to run high in a particular subject. If all the boys, for example, who at one time had ambitions to become circus performers had accomplished their intense desires, few people would be left to perform the prosaic occupations of life. The same might be said about professional baseball playing, scouting, and a great many other things in which the boy has at some particular stage of his development, shown a dominant and compelling interest.

May Lead Into Calling

Of course, the interest in acrobatics, in baseball, in mechanics, in art, or in music, may be so constant as to lead the boy eventually into the calling that is most closely related to this boyish

interest. In other words, there will be a small number of boys, who are intensely interested in radio and related matters, who will maintain the interest during the entire term of their academic education, and who will have the stamina and necessary mental qualities to become engineers, or at least to enter some of the related callings and become electricians, draftsmen, or mechanics.

In the great majority of these instances, however, the interest, whether it relates to mechanics, drawing, music, photography, or what not, is merely a transient state of mind, and the various interests are likely to succeed one another as the boy approaches maturity. The first thing, therefore, to bear in mind is that something more is necessary than a transient interest, even though it is keen at the moment, to indicate that a boy should be guided into a particular occupation.

Another consideration to be kept in mind, is that an occupation should be fairly acceptable from the viewpoint of the income possibilities. To take an extreme example to illustrate my point, a boy may have a strong literary tendency, with poetical inclinations. Even though this tendency is pronounced and long continued, there is so little return for writing of this sort that it would hardly do to encourage the boy to adopt the writing of poetry as a profession. It would be much wiser in such an instance to see to it that he obtained eventually a good journalistic or advertising training, in either of which the pronounced literary abilities could be used with a fair hope of obtaining an economic return that would be sufficient for him to maintain himself.

Academic Records

We usually have available with respect to each boy (and each girl for that matter) facts that are much more useful as a basis for vocational judgment than the transitory expressions of interest to which I have referred. By the time a student graduates from high school, records are available covering his work in various studies for a period of twelve years. There is, presumably, an unbroken record with respect to his ability in arithmetic and related mathematical subjects. There is a record that shows his performance in English from the earliest language studies to the study of such classics as *The Merchant of Venice* and *Comus*. There are available also, records with respect to the interest and accuracy shown in the natural sciences, such as chemistry and physics. There are records in other subjects of study, such as history and foreign languages, which disclose memory ability as well as continuity of purpose.

In these records is found a complete and comprehensive history of the reactions of the individual under work conditions. Of course, the "work" is school work, but a certain discipline is maintained year after year, certain tasks are assigned requiring different kinds of mental ability, and the results are impartially and faithfully recorded until the student reaches the time, at the conclusion of his high-school work or college work, when he will engage in work proper.

Now the proper use of this very specific information is dependent upon whether the person who attempts to use it knows the relation between the

H. C. WILLIAMS

Chief Accountant with the
Associated Oil Company

BACK in the dark ages of accountancy study—in the tiny office on Nassau Street where Pace Institute had its inception—Herbert C. Williams, chief clerk to the general superintendent of the Tide Water Oil Company, enrolled with Pace & Pace to commence his accountancy study.

As the years passed, Mr. Williams so impressed the management of the Tide Water interests, that, in 1907, shortly after completing his work at Pace, he was promoted to the position of controller. He continued in this capacity until 1916, when, to use Mr. Williams' own words, "the desire to see more of the country overcame my sense of security in my position."

Soon after leaving the employ of the Tide Water Oil Company, Mr. Williams secured a position with Cosden and Company, of Tulsa, Oklahoma. In a very short time he was rewarded by being elected treasurer of that concern. Mr. Williams remained in Tulsa with Cosden and Company for three years.

Mr. Williams then chose California as a logical place to locate. In 1920 he secured a position with the Associated Oil Company, with which he is still connected. His first work with this company consisted of installing a cost system at their Avon refinery. The system, as he installed it, is still in use. In 1922 Mr. Williams was appointed assistant auditor of the company. In the fall of that year he was sent to Los Angeles to assist in organizing the accounting bureau of the company in that city. In May, 1923, he was placed in complete charge of all the accounting operations of the company in the southern district, in which capacity he has remained ever since.

And don't allow our reference to the "dark ages" in accountancy to mislead you—these dark ages are comparatively recent. "H. C." was a youngster when he discovered the founders of the Institute, and he is still a young and enthusiastic accountant, filled with the forward-looking vigor of his adopted homeland. We, the Pace Organization, are both fond and proud of H. C. Williams.

results shown by various courses of study and the requirements in certain occupations. For example, there is a definite relation between good work in mathematical subjects of study and such occupations as bookkeeping, accountancy, engineering, architecture, and the like. The bookkeeper must work with precision, he is continually recording facts expressed in figures, and he must, every hour of the day, use the ordinary processes of arithmetic. In accountancy, he must express facts and conclusions in numbers, and of course must have more background in mathematics than the bookkeeper. If he is to be an engineer or an architect, he must carry his mathematical studies to a very advanced stage in order to graduate from a technical school and thus prepare himself for his work.

If, in looking over the record of a student, it is found that during the entire time of his study he has had trouble with his mathematical subjects and has been able to pass only by dint of review work and extraordinary effort, it is a foregone conclusion that such a student should not be encouraged to enter an occupation the work of which is based very largely on ability to carry out mathematical processes of one kind and another.

Such a student might, on the other hand, have shown exceptional proficiency in history and in the languages. The stenographer or private secretary should have an exceptionally good memory, a natural aptitude in English, and a capacity for acquiring a large vocabulary; but he need not, under ordinary conditions, do much work with respect to numbers. Proficiency in English, history, and the languages would indicate a good basic ability for stenographic work, as well as for professional occupations such as law, in which an interest in history, statesmanship, and the like, and the use of English are much more needed than mathematical ability.

Ability in Natural Sciences

If a student shows a decided ability in the natural sciences, particularly if it extends to biology, certain phases of psychology, and the like, an aptitude for medicine may be indicated. Certainly there would be no basis for medicine if the student had shown no inclination whatever to become interested in the chemical and biological sciences.

In these school records is found a very treasure-trove of facts, which

Learn to Cooperate as Basis for Success

Road System of Romans and Great Wall of China Outstanding Monuments to Cooperative Effort ~ Spirit of Co-action as Factor in Modern Business ~ Radio Talk by the EDITOR ~ ~

NO ability is more important from the viewpoint of vocational advancement than the ability to cooperate. If one can give the best there is in him to group action, subordinating, if need be, his own individual opinion, he is likely to make a good baseball player, a good soldier, or a good employee of a business corporation. There is a great deal that can be said profitably with respect to the development and exercise of this essential work ability.

Look around you, and you will note here and there an individual who is not cooperative. There are fraternal societies in his community, but he does not join them; there are churches, but he does not wish to undertake the responsibilities of personal membership in any one of them; there is a chamber of commerce, but he lets the other fellow join while he remains outside. If he is a professional man, he does not support his professional society.

The Objector

If by force of public opinion a man of this type does become a member of any organization, he is likely to refuse to subordinate his opinion to the opinion of the majority; he is always in the minority, and the smaller the minority the better he enjoys it. If you find this type of person in a society, in a church, in a legislature, or in a business organization, you will find him fighting a battle, not against the common enemy, but against his fellow workers. He forms a caste, local and national, of which the late Senator La Follette was the high priest. David Harum found a plausible reason for the existence of fleas—he said that they at least keep a dog from dwelling too much on the fact that he is a dog. The objector, conscientious or otherwise, the non-conformist, the Bull Moose, the bitter-ender—all these gentlemen of the opposition and of the minority presumably

likewise have their use in the general scheme of things, and with this general scheme of things we have no quarrel.

However, after making all proper allowance for the usefulness of the non-cooperative person, it still remains a fact that civilization primarily depends on the "get together" spirit. It is necessary for the individual worker to join cheerfully with his fellow workers in putting over a job that is for the benefit of all concerned. If necessary, an effective worker will fall in line with his fellows and his chief, even though he does not fully agree as to the method of procedure.

Strength in Group Action

From the beginning of history, advancement in civilization has always depended upon the ability of people to cooperate effectively. The family, in primitive civilizations, is the basic co-operative group, and from the family unit has developed the tribe and the nation. It has always been known that there is strength and profit to be obtained from group action, but it has also always been difficult to maintain the allegiance of the individual to the group idea.

In China, today, group action has fallen to a low state. There is no effective central government, and local officials rule and plunder. The wheelbarrow tracks, canals, and other public facilities are used by millions, but there is no concerted action through which they can be kept in repair and additional facilities provided. The nation, therefore, is weak, personal rights are insecure, and economic conditions are unnecessarily severe.

Monuments to Cooperation

In former days China could tell another story. The greatest defensive military work ever created was the Great Wall of China. The wall, with

its branches, is longer than the distance from New York to San Francisco. It runs over mountain ranges and through valleys, its height varies from 20 to 50 feet, it is of an average width of 22 feet, and it includes thousands of towers from 40 to 60 feet high. The construction work was carried on during several centuries by succeeding administrations. It required the work, over long periods of time, of hundreds of thousands of laborers. Here is an extraordinary example of effective group action.

The Grand Canal in China is another great monument of cooperative work. This canal is an artificial river 1200 miles or more in length, with a depth that varies from seven to thirteen feet. In places it is over a hundred feet wide, its sides are in many places faced with stone, and it is spanned by hundreds of stone bridges. It probably represents more human effort than the Suez and Panama canals combined. China is no longer able thus to marshal her manpower in undertakings for the common good.

The Romans were preeminent in teamwork, both military and civil. Some of their aqueducts are still carrying water for European communities after two thousand years of useful service. Many of their roads still provide passage for traffic of all sorts, including the modern motor truck and passenger automobile. The benefits of group action thus extend down through the ages.

In each of the nations that are now great and powerful will be found an extraordinary ability for group action. Military and industrial organizations have reached a peak never before attained. The Great War, it is true, gave evidence that some of these nations had not yet learned the lesson of international cooperation. They could, perhaps, learn this lesson in no way except by devastating war. In the end, the principle of cooperation will prevail because it is constructive and not

destructive. Civilization can move ahead only by the acceptance of the constructive principle of cooperation.

It is but a step from these fundamental principles, which have been illustrated briefly by the monuments of history and the outstanding events of modern life, to the vocational problem of the modern worker. He usually finds employment in a corporation in which the stockholders and directors formulate general policies, and in which the officers provide specific work instructions that are deemed to be for the best interests of the organization and its personnel. Plenty of opportunity is usually provided in a modern organization for the expression of individual opinion before a policy or procedure is finally adopted. Infinitely more liberty is extended in this way than is practicable in a military organization. Nevertheless, when policies and procedures are definitely made and stated, it is the business of each employee to give loyal support and to subordinate, if need be, his own personal opinions. Of course, an employee should not be expected to subordinate his opinion with respect to a question of moral right or wrong, such as might be raised if he were directed to do a dishonest thing. In such an event an employee would have no recourse but to refuse and to resign. In the conditions of ordinary employment, however, questions of this kind do not arise, and I am speaking only with respect to performance of the duties that commonly arise in employment.

Non-cooperative Spirit

The non-cooperative spirit finds many expressions. A common one is lack of punctuality, which interferes with the concerted action that is necessary in any office or plant. Another instance is found in the idle talk and gossip, both within an office and outside, which interferes with harmonious work relations. Another subtle but harmful expression is found in the lack of interest in the work to be done—a lack of enthusiasm which acts as a damper upon one's associates and imposes an undue burden upon one's chief. Another expression is found in the development of an attitude of mind in which the employee looks upon the organization as something that must be worked in every possible way for his own private benefit.

There are innumerable ways in which the non-cooperative spirit can be shown by an employee, ranging all the way

from direct insubordination to safer, but no less harmful, practices, a few of which have been enumerated.

The fate of the non-cooperative person in a modern organization is limitation of income, failure to receive advancement, and often dismissal. A person who is by temperament non-cooperative may often, by reason of his failure to advance, become soured and grouchy and may thereby bring upon himself unnecessary hardships. Occasionally a person of this type will be found in the classified service of the Government, or in a large industrial organization, retaining his or her position by reason of long service and a certain measure of technical efficiency, notwithstanding his non-cooperative attitude. In these instances, however, desirable advancement and income are almost invariably withheld, and the individual pays a heavy penalty for his lack of ability to cooperate agreeably with fellow workers.

This ability—term it what you may—the cooperative ability, the proprietorship state of mind, or loyalty—is a vocational essential for anyone who aspires to success in organized effort. He must develop the "get together" spirit. He must learn how not only to express his views at the proper time and place, but also to subordinate his views to the general opinions and policies of the organization in which he works. The conditions are somewhat similar to those in a democratic form of government. The acceptance of things which seem to be good for the organization as a whole is necessary in business just as it is in government.

Finally, it should be kept in mind that, no matter how necessary the objector and non-conformist may be in the general scheme of things, he pays heavily for assuming such a position in a business organization. The person who doesn't work in whole-heartedly on the job to be done, but who holds back and lowers morale by airing his own objections and grievances, is soon marked for limited advancement, if not for actual dismissal. He is looked upon as an obstructionist, and he is usually replaced by a person who can loyally support the policies of the organization, and who can whole-heartedly cooperate in putting over whatever job is in hand.

Can Be Cultivated

The spirit of cooperation and of organization loyalty can be cultivated and developed. A beginning can be

made by a loyal observance of the working rules of the organization of which one is a part—an observance that should extend beyond the mere letter of the rules. Work ability can be developed both by careful observation and study of the work that is performed, and by appropriate study during one's over-time. When an employee's reputation is well established for willingness to cooperate and ability to perform his duties satisfactorily, the way is wide open to vocational advancement that will place him in a position where he will take an important part in formulating the general policies and the working rules of his organization.

Field Trip

THE S. S. Berengaria of the Cunard Line, was the scene of a recent field trip made by twenty-five members of the Day and Evening Division of Pace Institute under the direction of J. C. Myer of the faculty.

The group, first, was shown the splendidly equipped Cunard offices in the Cunard Building on Broadway. From there, accompanied by Mr. Charles W. Kay, of the executive staff of the Cunard Lines, the students visited the ship at its dock. Mr. Kay was a most able and hospitable host, and lectured on the historical significance of various parts of the boat and explained in detail its many interesting features.

The "Berengaria" is one of the three largest ocean liners in the world. The other two, the "Majestic," of the White Star Line, and the "Leviathan," of the United States Lines, are sister ships, and all three were turned over by the German Government to the Allies at the close of the World War. In appointments, in numbers, and in the desirability of their accommodations, these ships have no equal. They are modern in every respect and, among other things, include an up-to-date gymnasium and a magnificently decorated swimming pool. There are two palatial suites on the "Berengaria," the Imperial and Prince of Wales. These suites have been occupied by many important personages since the war.

The trip proved to be one of the most interesting and instructive that the students have had thus far, and is one of many such trips made each year in accordance with the regular policy of the Institute of acquainting students with actual business and mercantile conditions.

Are You Familiar with Trade Acceptances?

Discussion of Uses, Advantages, and Merits of Trade Acceptances ∞ Their Economic Raison D'etre

∞ By E. J. KOESTLER, Graduate of Pace Institute

IN the last several years there has come into use in this country a form of credit instrument, based on commercial transactions, known as the "trade acceptance." It is quite likely that the use of this form of instrument will in time become general throughout the country in all commercial transactions; and the accountant student, the accountant, the credit man, the treasurer, the controller, and all others who deal with the accounting and the fiscal matters of business should be thoroughly familiar with this form of commercial paper. The following article has therefore been prepared, and is based upon research work of the American Acceptance Council.

Definition

A trade acceptance, as defined by the Federal Reserve Board, is a "draft or bill of exchange drawn by the seller on the purchaser of goods sold, and accepted by such purchaser." From this definition it will be seen that a trade acceptance must have all the essentials of an ordinary bill of exchange; and, in addition, it must originate from a current transaction concerning the purchase and sale of goods. A form of trade acceptance recommended by the American Acceptance Council is reproduced on the next page.

Purpose

The purpose of the trade-acceptance system is the settlement of accounts by trade acceptances, and is intended to supersede the open-book account so far as is practicable.

This form of instrument is not entirely new in this country, as it was used somewhat during our early history. The civil war, however, distorted the financial situation at that time, and the risk and uncertainty attendant upon the granting of long credits led to the introduction of offers of large

cash discounts to insure prompt settlement in cash, and gradually the open-book account with the cash discount came into general use. The trade-acceptance system is used largely in England, France, and other foreign countries, while in Canada the trade acceptance, or "trade paper" as it is termed there, with some modification respecting discount at banks, is the credit medium by which practically the entire internal trade of the country is transacted.

How to Use Trade Acceptance

The seller, when rendering an invoice for any fairly large, single purchase of merchandise, accompanies the invoice with a trade acceptance form duly filled out for the amount due; or, if several sales for small amounts are made, the seller, when rendering a monthly statement, accompanies the same with a trade acceptance form duly filled out for the total amount. Upon receipt, the buyer has the option of either paying the bill immediately, deducting the cash discount if any is allowed, or of accepting the trade acceptance. The latter is done by writing across the face of the instrument, in the space provided, the following information:

First—the date of acceptance

Second—the name of the bank at which he is to pay the acceptance when due

Third—the city or town where the bank is located

Fourth—the official signature used in his business

This should be done at or before the expiration of the cash discount period and the trade acceptance immediately returned to the seller.

It will thus be seen that the ordinary expedient of giving cash discounts for prompt settlement is not eliminated. If an acceptance is used, however, the seller has commercial paper at hand which, in case of need, he may take

to his bank and have discounted. Such paper is naturally more desirable from the viewpoint of the bank than the personal note of the seller, because it is two-name paper, and because the Federal Reserve Act specifically provides that such paper may be rediscounted by Federal Reserve banks.

In this connection it may be stated that, to be eligible for purchase by, or discount at, a Federal Reserve bank, a trade acceptance should present prima facie evidence that it is drawn by the seller on the purchaser of goods sold, and must have a maturity at time of purchase or discount of not more than ninety days, exclusive of days of grace. If, however, the trade acceptance is drawn for agricultural purposes or against a sale of live stock, it may have a maturity at the time of discount of not more than six months, exclusive of days of grace.

The three parties chiefly interested in the trade acceptance are the seller, the buyer, and the banks. How does the trade acceptance operate to the advantage of each of these? Some of the advantages, as seen by the American Acceptance Council, follow.

Advantages from Seller's Viewpoint

It has been ascertained by certain investigations made in connection with open accounts that when bills provide for a discount within 10 days, discounts are actually taken over a period averaging 15 days; and when the option of say 60 days credit is taken, the average settlement is made in from 75 to 80 days, and 10 per cent or more of customers take 90 days or more. Naturally, when a buyer fails to pay his bills at the agreed time, he is forcing the seller to carry his account on the latter's capital. Each day that passes after maturity means a shaving down of the seller's profit. If the seller does not want to lose money on his sales, he must add to the selling price, on the

basis of past experience, an amount that will take care of this shrinkage in net return, causing higher prices to the purchaser and to the ultimate consumer. In effect, under the open-account system, the seller serves a banking function in regard to his credit customers. By using trade acceptances, the banking function of the seller is transferred to the bank, where it rightfully belongs.

The use of the trade acceptance establishes quickly the correctness of the amount as between the buyer and the seller, obviating largely the tendency to friction over differences not reported until the account is due; it reduces the expense of collections; and it lessens the cost of conducting business. To carry on an open-book-account system, sellers often strain their own credit in order to extend credit to the buyer for an indefinite time, frequently without interest, security, or even any evidence of the sale. This custom often results in loss by reason of the non-payment of accounts.

Perhaps the greatest benefit from the viewpoint of the seller is that liquid commercial paper is substituted for the open-book accounts, the capital for the latter being ordinarily tied up until maturity and generally longer. The seller has paper more acceptable to his bank for discount than when he offers his single-name paper. Even if he does not need to resort to discount, he can always feel that he is fortified against emergencies by having in his safe, instead of "accounts receivable," acceptances which can be discounted easily and at fair rates to raise the necessary funds.

Yet another advantage is that the

trade acceptance enables a business organization to determine with some degree of definiteness what its receipts will be from week to week. The trade acceptance matures at a fixed date, and payment can usually be depended upon. Over 95 per cent. of all trade acceptances are paid promptly at maturity.

Advantages from Buyer's Viewpoint

Those who settle by trade acceptance, like those who discount for cash, put themselves into a class of preferred buyers as against those who, declining to use trade acceptances, insist upon a long open-book account. The use of trade acceptances also serves as a check on overbuying, as the necessity on the part of the buyer to promptly meet his obligations when they come due tends to control the volume of his purchases, causing him to restrict them to an amount that he can reasonably handle.

Those who pay bills promptly under discount obviously have little need for the trade acceptance, but all retailers should buy at the best possible prices. Those who do not discount, but who give trade acceptances, strengthen their credit standing and can purchase on terms which will enable them to compete successfully with concerns that buy and sell strictly on a cash basis.

The use of trade acceptances causes the retailer to be more careful in the extension of credit to his own customers. The practice of allowing customers to extend the credit much beyond the time originally agreed upon, serves to tie up capital and often keeps the retailer from being prompt in his own payments. If the retailer gives trade acceptances, he himself can inaugurate

the same system with his customers. This, in turn, will train them to have definite times for the payment of bills and will avoid long terms of credit, with the attendant slow collections, bad debts, and economic waste; and the smaller amount of capital investment thus required, and its more liquid state, will enable him to increase his turnover and thereby increase his profits.

If the buyer meets his trade acceptances when they mature, he establishes and confirms his credit; and if, on occasion, he wishes to postpone the date of payment of a trade acceptance, he is usually able to secure an extension of credit by giving a promissory note with interest.

Advantages from Banker's Viewpoint

The trade acceptance, which is two-name commercial paper, is one of the most liquid and satisfactory forms of purely commercial loans. The credit represented thereby gives evidence that the buyer is prepared to meet his obligation at a certain definite time and is adopting the most approved and economical way of transacting business.

It is generally recognized that the best investment of a commercial bank's resources is in the purchase of paper representing sales of commodities or merchandise actually made, payment for which is to be made in the future. In lending on single-name paper, the banker is loaning really against mixed security; i.e., goods already sold (represented by accounts or bills receivable), and goods in stock not yet sold; and also plant and good-will are thought of as being back of it. The trade acceptance, therefore, is a more acceptable form of investment, as it represents sales actually made and carries two names instead of one as security.

Many state banks and, under Section 5200 of the National Bank Act, all national banks are limited in their loans to any single borrower to ten per cent. of their capital and surplus, which in many cases obliges the large borrower to go outside of his own city for part of his loans. This prevents his local bank from using funds in what, in many cases, would be most desirable loans. This, however, can be overcome if the borrower holds trade acceptances of his customers, because his bank can, under the terms of the statute, discount these without regard to the ten per cent. limitation, the statute providing that the discount of "bills of exchange drawn in good faith against actually existing

(CITY OF DRAWER)		(DATE)		191		No. _____	
ON _____		(DATE OF MATURITY)		PAY TO THE ORDER OF OURSELVES			
TRADE ACCEPTANCE <small>THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER. THE DRAVEE MAY ACCEPT THIS BILL PAYABLE AT ANY BANK, BANKER OR TRUST COMPANY IN THE UNITED STATES WHICH THE DRAVEE MAY DESIGNATE</small>							
TO _____		(NAME OF DRAVEE)		DOLLARS \$ _____			
_____		(STREET ADDRESS)		BY _____		(SIGNATURE OF DRAVEE)	
_____		(CITY OF DRAVEE)		DATE _____			
PAYABLE AT _____		(LOCATION OF BANK)		BY _____		(SIGNATURE OF DRAWER)	

Some authorities have suggested that the words, "maturity being in conformity with original terms of purchase," be inserted following the words, "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer." The purpose of this is to guard against the use of the Trade Acceptance in settlement of past due accounts. It should be remembered that Trade Acceptances are to be used only in connection with current transactions.—Form and description courtesy of the American Acceptance Council.

values, and the discount of commercial or business paper actually owned by the person negotiating the sale," shall not be considered as money borrowed; and this procedure also has the added advantage of leaving the bank with a class of paper which it, in turn, can rediscount with its Federal Reserve bank without regard to the further limitation contained in Section 13 of the Federal Reserve Act.

The Guaranty Trust Company of New York has said: "American business men and bankers are rapidly increasing the use of this valuable instrument for financing trade, which is simply the buyer's acknowledgment of the correctness of an invoice with the agreement to pay for the goods at a stated time. The use of the acceptance strengthens the credit of the buyer, enables him to buy to better advantage, systematizes his purchases and payments. For the seller, it reduces the burden and loss of the complicated and unproven open account. To the bank, it provides approved commercial paper. It turns the buyer's credit and the seller's wares into immediate money."

Anyone desiring to do so can secure further information regarding this modern form of credit instrument by writing to the American Acceptance Council, 120 Broadway, New York City.

PAUL SIFTON,
of the World,
says:

A CERTIFIED public accountant must get behind the figures on the ledgers.

"He must be able to break up a business, an industry, a factory or the various activities of a charity into their component parts.

"He must analyze these parts, weigh them, balance them against other parts, determine their proper relation to the whole.

"He must pass upon the expenditures for raw materials, for machinery, for plant space, for labor, for management, for sales, advertising and capital.

"He must determine whether all these expenditures have properly been made, which ones have been favored, which ones slighted.

"He must evaluate the entire management, its past operations, its present status.

"He must put all the parts together again and pass judgment on the whole.

"Often he is called upon to project his findings into an outline of a future policy.

"In short, he is a commercial physician, a diagnostician. He is called upon to determine the health of undertakings involving money, to prescribe treatment for sick businesses, and to chart future conduct."—*From the World, Sunday, May 16.*

New York Times Field Trip

THE daily newspaper is one of the marvels of the modern age. To the average person, particularly to one who has had any experience with printing, the way in which the daily news is gathered, edited, set in type, printed and distributed for consumption, seems almost miraculous. It is a matter, sometimes, of minutes from the occurrence of a news event to its appearance on the street in the form of a newspaper. How is this accomplished?

To answer this question, and others of a more economic nature, a large group of day school students under the direction of J. C. Myer, visited the plant of the *New York Times*, on Tuesday, May 11.

They were conducted through the plant by a guide under the direction of Mr. Wasserman, an auditor of the Times Publishing Co. who is a Pace student. The tour started at the thirteenth floor where a large and beautifully furnished Club Room, Library and Roof Garden are maintained for the employees. On the 11th floor is a

modern cafeteria which is run at a large annual loss in order to provide the right kind of food for employees. From there the group descended floor by floor through all the intricate organization that enters into a modern newspaper. The key-note in all the offices was quiet and beauty. This was exemplified in the editorial rooms which were surrounded by a library of current publications and research works. On the fourth floor is located the typesetting machinery which converts the "copy" into type for the mammoth presses which are located deep in the basement. The presses which are three stories high are placed below the street level to minimize the vibration caused by the huge revolving cylinders. From the press room, where they are cut and folded by machinery, the papers are loaded onto fast trucks that deliver them to main distribution points throughout the city.

The point that was brought home most clearly to every student's mind was that the paper, from reporting to delivery was the result of organization, coordination and cooperation.

"THE *Pace Student* for February, 1926, contains an article by Alfred F. Upson, attorney-at-law, wherein an interesting case of the applicability of arbitration is described, concerning the right of a corporation to build a factory on public land reverted to it, and the damages suffered by residents near by, in the value of the properties."—*American Arbitration Association.*

ARTHUR F. MAXNER, a student at Boston Pace Institute, has accepted employment as office manager with Gloucester Electric Light Company.

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Bookkeeping Act in Philippines Works Hardships on Chinese Merchants

Supreme Court Action Brought by Coudert Brothers On Behalf of Chinese Business Men as Chinese Transact Sixty Per Cent. of Mercantile Business

SO far as the use of the abacus is concerned—that ancient Chinese adding machine of wooden balls strung on wires in a rack—the accountant is reasonably well informed. And when it comes to converting “Mex” and taels, his guess is just as good as any other man’s. But as to the audit of Chinese accounts in Chinese characters,—well, even a revenue man would throw up his hands.

But the question is, does not one have an inherent right to use any old method, language, or symbols that he chooses to record his business transactions? The whole story of the way John Chinaman is getting into polite legal and accounting society is so well told in *The New York Sun* of April 19th that the article will be reproduced verbatim—a rare event in this magazine of first-hand thought and reporting. The article follows:

“The ‘anti-Chinese’ bookkeeping law of the Philippine Islands, which has been paraded through various courts to test its constitutionality, has reached the Supreme Court of the United States. The act renders it unlawful for any business house in the Philippines to keep its account books in any language other than English, Spanish or any local dialect.” The penalty for violation is imprisonment and a fine.

“The action before the Supreme Court has been brought by Coudert Brothers, of 2 Rector Street, upon behalf of Yu Cong Eng and Co Liam, ‘for themselves and for the benefit of all other persons similarly situated and affected.’

“The petition, which was argued by Frederic R. Coudert, asks for prohibition and injunction against the enforcement of the law. The action is against the Collector of Internal Revenue of the islands.

“In the brief submitted to the court Mr. Coudert contends that Chinese

merchants were established in the Philippine Islands before the arrival of the Spaniards in 1520, and that the Chinese written language, the only language of importance not permitted by this law to be employed, is an ancient, scientific tongue used by the Chinese, Japanese and Koreans, who constitute more than one-fourth of the entire population of the world.

“There are forty-three native languages divided into eighty-seven local dialects in the Philippine Islands,” Mr. Coudert said. “One of such local Filipino dialects is employed by as few as 983 persons in the islands.

“There are approximately 85,000 merchants of all nationalities in the Philippines. Of this number about 71,000 are Filipinos, 1,500 are Americans, Spanish or British, and of the remaining 12,500 approximately 12,000 are Chinese. These 12,000 Chinese merchants transact more than 60 per cent. of the total business done by all the merchants, and they are the principal distributing factors for imported goods and the principal gatherers of goods for exportation throughout the islands.”

Does Not Read English

“The petitioner, Yu Cong Eng, is a Chinese merchant engaged in the lumber business, and does not read, write or understand the English or Spanish language, or any Filipino dialect, the brief contends. The books of his business are kept in Chinese. The employment of a bookkeeper, if one were available who was familiar with the prescribed languages, would place the books of the petitioner effectually beyond his control, it is stated.

“Mr. Coudert attacked the law under three separate counts. He first charged that the act is void, as contrary to the prohibitions of the Philippine bill of rights and the Fifth Amendment to the

Federal Constitution; second, that the act is void because it denies to the petitioners and others similarly situated the rights, privileges and immunities secured to them by the treaties between the United States and China and which assure to Chinese nationals the ‘most favored nation’ treatment. The third count attacks the validity of the decision of the Supreme Court of the Philippines which upheld the law.

Beyond Their Comprehension

“This law as written will, even if physically enforceable, place the Chinese merchants’ books entirely beyond their power and comprehension,” Mr. Coudert said. “What possible justification can be offered for legislation leading directly to such an end? The very briefest examination of the facts herein will disclose the trifling apology of social purpose and necessity here submitted to thinly mask the object of the law which is to be clearly found in its logical effect.

“What reason exists for a classification prescribing the Chinese language, when local dialects employed by as few as 983 persons are permitted? Can books in dialects so little known be more readily examined?

“There can be little doubt as to the true object of this law, in the light of the legislative debates at the time of its passage and its peculiar and destructive effect upon the Chinese merchants alone, the ‘powerful rivals’ who do most of the mercantile business of the Philippines, and without whom, as all but the very short-sighted know, the whole economic life of the islands must be seriously impaired.

“This law is a general penal law aimed directly at the Chinese, and convenience to the taxing authorities, if in fact there be any, is but an afterthought conjured up to disguise its true nature.”

Solves Financial Problem of Both Buyer and Seller. By FRANKLIN KNOCK, LL.B.,
of the Detroit Bar.

1. Cash with the order or against shipping documents.
2. The buyer's promissory note; or the note of a third person; or bill of exchange on a person other than the buyer, properly accepted and endorsed, sent with the order or surrendered against shipping documents.
3. Open, or book, credit with subsequent remittance in cash or commercial paper.
4. Trade acceptance, or bills of exchange, drawn by the seller on the buyer.
5. LETTER OF CREDIT.

CONDITIONS in accountancy, notwithstanding our well-established societies and many large practices, are still of a pioneer character. The burdens of the pioneer are still to be borne, and the rewards of the pioneer are still to be had.

DAVID BERDON, C.P.A.,

of David Berdon & Co., says:

THE four basic questions to which a credit man will generally seek answer in analyzing a financial statement submitted to him are the following:

1. What is the ratio of total assets to total liabilities?
2. What is the ratio of current assets to current liabilities?
3. What progress has the firm made since the date of submission of its last statement?
4. Is it doing too much business for its capital?

Concerning No. 1—*What Is the Ratio of Total Assets to Total Liabilities?*

"The minimum desired condition in a healthy financial statement should reflect total assets amounting to at least \$2.00 for every \$1.00 of liabilities, i.e., there should be at least \$1.00 of capital to match every \$1.00 owed to creditors. Thus, a firm owing \$75,000.00 should have assets of at least \$150,000.00 and a net worth of at least \$75,000.00.

Concerning No. 2—*What Is the Ratio of Current Assets to Current Liabilities?*

"In practically every case a very important requirement expected by credit men in financial statements submitted to them as a basis for credit is that the 'quick' assets should be at least equal to the total liabilities. By quick assets is generally meant the total of cash, accounts receivable, notes receivable, negotiable securities (with a ready market), etc. In connection with this test, merchandise inventories are usually excluded from the current or quick assets, except perhaps in the case of retail establishments.

Concerning No. 3—*What Progress Has the Firm Made Since the Date of Submission of Its Last Statement?*

"Credit men are in increasing numbers placing particular stress upon this phase of credit analysis. It will be frequently found, therefore, that a firm's credit is seriously impaired, even if the previously discussed ratios are satisfactory, because comparison of its most recent statement with previous ones indicates a losing or 'sliding' tendency. The reasoning is, of course, obvious, inasmuch as the 'capacity' of the merchant involved is at all times a vital factor in passing upon his credit standing and such 'capacity' is largely meas-

ured by the rate of progress which the said merchant is making in his business.

"It will, therefore, be found that a merchant starting with a \$25,000.00 capital and ending the year with a capital of \$50,000.00, the increase being due to profits earned, will generally enjoy a better credit than the firm which started the year with a capital of \$100,000.00 and ended with a capital of \$70,000.00, due to losses sustained.

"While credit men have in the past been compelled to draw their conclusions as to a firm's progress, by comparison of its most recent financial statements with the previous ones, a growing tendency has been manifest in the past few years to seek more complete enlightenment upon this question by requesting of the credit seeker either a detailed profit and loss statement or a detailed analysis of the capital accounts (in the case of sole proprietorships and partnerships) and of the capital stock and surplus accounts (in the case of corporations). This additional information has been found necessary because of the fact that frequently a firm has been able to conceal the fact that it has lost money through operations, by increasing its business capital through additional investments by the owners, by writing up some of its assets (particularly fixed assets and investments) and other devices of a similar nature which would tend to offset any decrease of capital from operating losses. Concerning No. 4—*Is It Doing Too Much Business for Its Capital?*

"In this connection, of course, the measure used to answer this question is the ratio of the firm's capital to its annual sales. This is a test which credit men find necessary because of the fact that the credit statements submitted to them are generally prepared at a time of the year when a firm's financial condition is most favorable, and inasmuch as it is vital for a credit man to know the probable condition of a firm at the peak of its season, the sales are utilized as a basis for gauging, to some extent at least, the probabilities of a firm becoming unduly 'top heavy' during the year.

"On this phase there has been a noticeable tendency on the part of credit men to occasionally request trial balances during the year as an additional

check of such 'peak' period, although this rather unusual request will generally be made only of a firm that is receiving an exceptionally large line of credit for its capital.

"The latter statement raises the interesting question as to how much credit a seller may safely extend to a buyer based upon the buyer's capital. No fixed rule or procedure can be laid down or is followed in this connection, due most likely to the fact that the three C's (character, capacity, and capital) still constitute the basis for all credit. It will thus frequently be found that a firm with a capital of \$100,000.00 will be getting as high as \$25,000.00 credit from one merchandise creditor and as high as \$75,000.00 from banking sources, while another firm with the same capital will have difficulty in borrowing \$25,000.00 from banks and in getting \$5,000.00 credit from one merchandise creditor.

"Of course, the nature of a business is also a determining factor in measuring the amount of credit which should be extended to the seeker of credit as well as deciding the extent to which the capital shown in the financial statement should be discounted."

Pace Pins

THE Institute has on hand at the Cashier's office a limited supply of Pace monogram pins. They are supplied in two grades—gold and gold-plated—with either screw or pin fasteners. The pin fasteners have a patented safety catch.

While the present supply lasts they may be purchased at the following prices:

Gold.....\$1.00
Gold-plated......60

PACE INSTITUTE
CASHIER'S OFFICE

30 CHURCH ST., NEW YORK

Advantages of the Annual Audit Summarized

Metropolitan Life Issues Informative Leaflet
Advantages Stated by Policyholders
Federal Reserve Forms Given

“THE purpose of this leaflet is to show

First—The result of an inquiry to a limited number of Metropolitan Group Policyholders, asking whether they were employing an Annual Audit.

Second—The main benefits professional accountants believe an audit should bring.

Third—A means whereby to obtain the best results from the audit, and

Fourth—An approved form of Profit and Loss Account and a Balance Sheet.

Policyholders' Views

“Of twenty Policyholders responding, six stated that they did not have an audit made of their business; a seventh Policyholder reported that no outside audit is made because the company is well equipped in the matter of accountants in its own Auditing Department, and has all the necessary facilities for the preparation of reports both monthly and annually. Thirteen Policyholders stated that they employ an audit and among them they cite the following benefits therefrom:

1. A sense of security.
2. A wholesome influence upon the working force.
3. Assistance in securing accurate costs.
4. Improvements in accounting methods.
5. Considerable assistance in the preparation of tax reports.
6. Exhibiting to banks and other creditors an impartial statement of financial condition.
7. A stimulation to self-examination with a view to avoiding an accumulation of poor accounts and out-of-date merchandise.

Accountants' Views

“Professional accountants have, of

THE following article on “The Annual Audit” is reproduced from a leaflet which is one of a series on business subjects published by the Metropolitan Life Insurance Company.

—THE EDITOR

course, more closely appraised the advantages of the audit, and a more detailed statement of its advantages is naturally to be expected from them. The following summaries are based on the composite views of some of the leading accountants in the country:

“*First*—A periodic audit affords a review by independent specialists of the operating results of the year and the financial condition. It frequently happens that the businessman, intensely interested in the solution of problems, gets too close to his business to see it clearly.

“*Second*—The annual audit furnishes a concise statement of the principal financial facts in the history of the business for the preceding year, and enables the management to make the necessary comparisons of this year's business with other years. A comparison of the results from year to year makes it possible to detect oversights in management which, if not found and corrected, would naturally prove serious. A company may be hampered by a shortage of working capital, or may be carrying too large a force of employees in certain departments.

“*Third*—The audit facilitates the granting of credit. It is welcomed by bankers because it gives authentic information which they can use for credit purposes. The audit is usually

considered indispensable in the sale of commercial paper or other obligations.

“*Fourth*—The audit tends to reduce the difficulty in filing tax returns. Considerable weight is, moreover, attached by Income Tax Officials to figures prepared or certified to by reputable accounting firms.

“*Fifth*—The audit discloses errors in principle in accounting procedure before they become of such long standing as to make it difficult to change to the correct procedure.

“Finally, the audit has a good moral effect upon the company's accounting staff. By modern accounting staffs, who have nothing to fear, it is welcomed as an endorsement of their work and because they can always learn something by contact with experienced auditors.

General Rules

“To obtain the best results from auditing:

- a. Audits, if made, should not be spasmodic, but should be regularly set at the close of each fiscal period.
- b. The audit report should include such comparative charts, percentages, etc., as will give a clear view of the trend of operations and financial condition. Charts and percentages are grasped much more readily than masses of figures in dollars and cents.
- c. In manufacturing and mercantile concerns the inventories should be verified or thoroughly tested.
- d. The auditors of corporations should, as in England and Canada, be elected by and be responsible to the Stockholders. The American plan whereby the auditors are appointed by the Directors is open to abuse.

FORM OF BALANCE SHEET

ASSETS		LIABILITIES	
<i>Cash:</i>		<i>Bills, Notes and Accounts Payable:</i>	
1a. Cash on hand—currency and coin		<i>Unsecured Bills and Notes:</i>	
1b. Cash in Bank		2. Acceptances made for merchandise or raw material purchased	
<i>Notes and Accounts Receivable:</i>		4. Notes given for merchandise or raw material purchased	
3. Notes receivable of customers on hand (not past due)		6. Notes given to banks for money borrowed	
5. Notes receivable discounted or sold with indorsement or guaranty		8. Notes sold through brokers	
7. Accounts receivable, customers (not past due)		10. Notes given for machinery, additions to plant, etc.	
9. Notes receivable, customers, past due (cash value, \$.....)		12. Notes due to stockholders, officers, or employees	
11. Accounts receivable, customers, past due (cash value, \$.....)		<i>Unsecured Accounts:</i>	
<i>Less:</i>		14. Accounts payable for purchase (not yet due)	
13. Provisions for bad debts		16. Accounts payable for purchases (past due)	
15. Provisions for discounts, freight, allowances, etc.		18. Accounts payable to stockholders, officers, or employees	
<i>Inventories:</i>		<i>Secured Liabilities:</i>	
17. Raw material on hand		20a. Notes receivable discounted or sold with indorsement or guaranty (contra)	
19. Goods in process		20b. Customers' accounts discounted or assigned (contra)	
21. Uncompleted contracts		20c. Obligations secured by liens on inventories	
Less payments on account thereof		20d. Obligations secured by securities deposited as collateral	
23. Finished goods on hand		22. Accrued liabilities (interest, taxes, wages, etc.)	
<i>Other Quick Assets (describe fully):</i>		<i>Other Current Liabilities (describe fully):</i>	
.....		
.....		
Total quick assets (excluding all investments)		Total current liabilities	
<i>Securities:</i>		<i>Fixed Liabilities:</i>	
25. Securities readily marketable and salable without impairing the business		24. Mortgage on plant (due date.....)	
27. Notes given by officers, stockholders, or employees		26. Mortgage on other real estate (due date.....)	
29. Accounts due from officers, stockholders, or employees		28. Chattel mortgage on machinery or equipment (due date.....)	
Total current assets		30. Bonded debt (due date.....)	
<i>Fixed Assets:</i>		32. Other Fixed Liabilities (describe fully):	
31. Land used for plant .....		.....
33. Buildings used for plant .....		.....
35. Machinery		Total fixed liabilities	
37. Tools and plant equipment		Total liabilities	
39. Patterns and drawings		<i>Net Worth:</i>	
41. Office furniture and fixtures		34. If a corporation:	
43. Other fixed assets, if any (describe fully)		(a) Preferred stock (less stock in treasury)	
.....		(b) Common stock (less stock in treasury)	
<i>Less:</i>		(c) Surplus and undivided profits	
45. Reserves for depreciation		<i>Less:</i>	
Total fixed assets		(d) Book value of good will	
<i>Deferred Charges:</i>		(e) Deficit	
47. Prepaid expenses, interest, insurance, taxes, etc.		36. If an individual or partnership:	
Other assets (49)		(a) Capital	
Total assets		(b) Undistributed profits or deficits	
		Total	

FORM FOR PROFIT AND LOSS ACCOUNT

Comparative statement of profit and loss for three years ending 19..

	YEAR ENDING				YEAR ENDING		
	19..	19..	19..		19...	19...	19...
Gross sales	\$	\$	\$	OTHER INCOME:			
Less outward freight, allowances, and returns	Income from investments	\$	\$	\$
Net sales	Interest on notes receivable, etc. . . . .	.....	.....	.....
Inventory beginning of year	Gross income . . . . .	.....	.....	.....
Purchases, net				
Less inventory end of year	DEDUCTIONS FROM INCOME:			
Cost of sales	Interest on bonded debt . . . . .	.....	.....	.....
Gross profit on sales	Interest on notes payable . . . . .	.....	.....	.....
Selling expenses (itemized to correspond with ledger accounts kept)	Total deductions . . . . .	.....	.....	.....
Total selling expense				
General expenses (itemized to correspond with ledger accounts kept)	Net income—profit and loss . . . . .	.....	.....	.....
Total general expense	Add special credits to profit and loss . . . . .	.....	.....	.....
Administrative expenses (itemized to correspond with ledger accounts kept)	Deduct special charges to profit and loss . . . . .	.....	.....	.....
Total administrative expense	Profit and loss for period . . . . .	.....	.....	.....
Total expenses	Surplus beginning of period . . . . .	.....	.....	.....
Net profit on sales	Dividends paid . . . . .	.....	.....	.....
				Surplus ending of period . . . . .	.....	.....	.....

The Federal Reserve Board, in cooperation with the American Institute of Accountants, prepared in April 1917, a bulletin on "Approved Methods for the Preparation of Balance Sheet Statements," which is, even at this date, the best concise statement available of what is comprised in a Balance Sheet Audit of a manufacturing or merchandise concern. In the bulletin which may be secured from the Government Printing Office at Washington, special instructions and suggestions are given for the auditing of Cash, Notes Receivable, Accounts Receivable, Securities, Inventories, Cost of Fixed Property, Deferred Charges to Operations, Notes and Bills Payable, Accounts Payable, Contingent Liabilities, Accrued Liabilities, Bonded and Mortgage Debt, Capital Stock,

Surplus, Profit and Loss, Sales, Cost of Sales, Selling, General and Administrative Expenses. The Bulletin also contains a standard form of Profit and Loss Account and a Form of Balance Sheet which are here reproduced.

Whether the audit is made by the organization itself or by expert accountants employed from outside, it needs to be regular, thorough, and fearless, and to take on the aspect of rigid self-examination. The results of such investigation will be reflected in a Balance Sheet and Profit and Loss Statement so designed as to call attention to fundamental accounting conditions meriting constant scrutiny. An audit so carried out will be proof against undue optimism and will provide a fair basis of comparison for prospective operations.

his agents.

"Damage suits are being brought in ever increasing numbers by members of the public against contractors, storekeepers, manufacturers, public service corporations, automobile owners and drivers and the owners and lessees of all kinds of property on account of personal injury or death due to some form of negligence. Property damage as well as human damage also is the basis of much litigation. Heavy judgments in this class of cases are quite common and are more easily obtained than ever before. Often they leave the defendant bankrupt, and still more often they result in losses which destroy his business prospects for a long period or compel him to dispose of all or most of his property at a forced sale. Many of these suits drag out over a number of years, and while pending they often impair the defendant's credit seriously.

"It is becoming more and more recognized by credit executives that the danger from such happenings is often nearly equal to the fire menace. Indeed the warp and woof of modern life is such a twisted maze, and human relationships are becoming so intricate that protection by insurance is freely offered and as freely sold today against the coming about of events which a decade ago would have been considered quite improbable."—*Extract from article in the Credit Monthly for May.*

Public Liability Insurance

"PUBLIC liability insurance may be generally defined as insurance against claims or damage suits arising out of accidents sustained by persons of the public—that is persons not employed by the insured. The responsibility of every individual, firm and corporation for the safety of those in or about his property or premises is well recognized by law. Workmen's com-

pensation insurance, which is compulsory in most states, takes care of the employer's obligation to his employees, but as to the public the liability is not fixed and the hazard is therefore greater. The basis of the recovery of damages by the person of the public is negligence, actual or constructive, on the part of whoever owns or controls the property or premises involved, his employees, or

The Million Dollar Credit Fund vs. Credit Crooks

*Sixty-two Convictions During the First Year
Typical Cases as Investigated and Prosecuted
by the National Association of Credit Men*

"IT is my firm belief that not less than five million dollars have been saved for business through the prevention of criminal failures since the department began to be active."

This, in a measure, is the way J. H. Tregoe, executive manager and treasurer of the National Association of Credit Men, sums up the work performed by the association through the medium of the credit protection fund.

This fund, which amounts to \$1,058,538.28 (of which \$770,621.48 has so far been paid in), was subscribed by credit men and business men generally in order to combat the rising tide of organized, criminal bankruptcies and other commercial crimes.

• Well Organized

Rarely has an organization of this kind been so well managed or so speedily set in motion. Since last June, according to figures supplied to the subscribers to the Credit Protection Fund, 653 cases involving various degrees and varieties of commercial crime have been carefully investigated. Of this number there have been obtained 324 indictments which, so far, have resulted in 62 convictions. Only 7 cases have been lost. At the present time there are 251 indictments pending, and 471 cases in operation. This truly, is a remarkable record to have made in such a short time.

In order to show the type of case which the Association has been investigating, it has made public two interesting cases which are reprinted below.

One of the most interesting cases brought to a successful conclusion by

THAT the organized commercial criminal can be fought successfully and defeated is shown by the following figures which record the activities of the National Association of Credit Men in combating commercial crime since June 1, 1925.

Cases handled.....	653
Cases in operation.....	471
Indictments pending.....	251
Indictments obtained.....	324
Convictions.....	62
Cases lost.....	7

In these cases, only the actual costs of investigation and prosecution has been borne by the "Million Dollar Credit Protection Fund"—all administrative and overhead costs have been paid by the National Association of Credit Men.

—THE EDITOR.

the Credit Protection Department of the National Association of Credit Men happened in Michigan, and the following are its outstanding features:

"Arthur Rosenberg and Joseph Rosenberg, twin brothers, became partners about five years ago in a commercial enterprise at Lansing, known as Rosenberg Bros. & Nederlander. The firm continued business until March, 1921, when Nederlander withdrew and the style was changed to the U. S. Salvage Co. Under this style the business was continued to February, 1923, when the name of Rosenberg Bros. was adopted. A second store was opened in Lansing and another branch store at St. Johns, Mich. These last two enterprises were discontinued and another established in Grand Rapids.

"Financial statements submitted to creditors of Rosenberg Bros. in January, 1924, showed a net worth of \$49,683.20. On this showing, the firm secured a great many goods and continued to operate to April 7, 1925, when an involuntary petition in bankruptcy was filed against Arthur and Joseph Rosenberg. The petitioning creditors lived in Detroit. The debtors filed schedules in bankruptcy showing liabilities of about \$54,000 and assets of about \$20,000. These schedules reflected a large shrinkage in assets and a large increase in liabilities since submitting their financial statements of January, 1924. Included in the liabilities were claims of friends and relatives. The merchandise indebtedness was about \$41,600.

"After the bankruptcy petition was filed, the attorney for the bankrupts appealed to the court for a stay of adjudication in order to offer a cash settlement to creditors of 20%. This appeal was referred to a Referee in Bankruptcy at Detroit, and pending a hearing upon the appeal, the bankrupt's attorney forwarded a letter to all the creditors urging an acceptance of the composition offer. The offer, however, was stoutly resisted by the Endicott Johnson Corporation and the B. F. Goodrich Rubber Company, together with other creditors, and it looked as though the composition would be voted down.

"Arthur Rosenberg, one of the bankrupts, according to evidence discovered and submitted, secretly visited Chicago and offered a number of the creditors in that city an additional 15% if they would vote in favor of the 20% composition. L. Lurie, of the Lurie Manu-

facturing Co., Chicago, was one of the creditors interviewed, and, to show good faith in the offer, Arthur Rosenberg deposited \$600 with L. Lurie to take care of the creditors in Chicago who would vote for the 20% composition and who, under the arrangement he had proposed, were to receive an additional 15%.

"When this matter came on for hearing on June 1 and 2, 1925, 123 claims were filed. Objections were taken to the allowance of a number of claims by the bankrupts and creditors so that only 86 claims were held entitled to vote, and of this number 44 voted for the offer and 42 in opposition.

Perjury

"At this stage of the proceedings, the Endicott Johnson Corporation, through its representative, filed objections to a confirmation of the composition, and on June 7 a hearing on the objections was held before the Referee in Bankruptcy. At this hearing Rosenberg made a false statement under oath, denying knowledge of the inducement offered Chicago creditors, although in the meantime the investigator assigned to this case by the Credit Protection Department of the National Association of Credit Men found plenty of evidence that such offer had been made. Depositions taken at Chicago and affidavits secured there pointed conclusively to the conspiracy of Rosenberg and Lurie to effect a fraudulent settlement contrary to the Bankruptcy Act.

"Believing apparently that objections to the composition settlement would be sustained, the bankrupt's attorney withdrew the offer. After this had transpired, the facts discovered by our investigator together with affidavits obtained from various witnesses were brought to the attention of the United States District Attorney at Detroit, Delos G. Smith, who assigned one of his assistants to the case.

"On August 10, 1925, the facts were presented to the United States Grand Jury at Detroit, and indictments were returned as follows: Arthur Rosenberg for perjury; Arthur Rosenberg for using the United States mails to defraud creditors; Arthur Rosenberg and L. Lurie for conspiracy; Attorney Marvin B. Gingold for subordination of perjury; Harry Rubin, Sam Kahn, Herman Schoenfeld and Leon Mecholson for conspiracy.

"Arthur Rosenberg was brought to trial on January 9, 1926, charged with

sending false financial statements through the United States mail to the Endicott Johnson Corporation at Endicott, N. Y., and to the Rice-Stix Dry Goods Co. of St. Louis, Mo. The jury brought in a verdict of acquittal.

"This result created some questions and evidently led Rosenberg to feel that the other indictments would be no more successful. The government, however, had worked out a masterly procedure and, not at all daunted by this acquittal, proceeded with the trial of Arthur Rosenberg and L. Lurie on March 24, 1926, under the indictment for conspiracy. This trial was held before Judge Raymond in the United States District Court of Detroit, and on March 30 the case was submitted to the jury. In one hour the jury brought in a verdict finding the two defendants guilty.

"On March 31, 1926, the trial of Arthur Rosenberg under the indictment for perjury was to begin. In the morning the jury was impanelled, the court took a recess at noon, and on resumption of the court at 1:30, Rosenberg's attorney entered a plea of guilty on the perjury charge. Judge Raymond first called Lurie to the bar for sentence. A strong effort had been made for the imposing of a fine only; but the Judge said, in part:

No Leniency

"It is within the knowledge of the court and I think within the knowledge of everyone who has had occasion to come in contact with practice in bankruptcy cases that there probably is no other field in which there is so much irregularity and fraud and corruption, and in which there are so many efforts made to defeat the ultimate purpose of the law, which in bankruptcy is that the creditors themselves shall receive the estate instead of certain classes of creditors and attorneys. Sentences are not imposed altogether as a punishment upon the one who has been convicted, nor altogether with a view to his reformation, but conditions in the criminal world at large make it quite necessary that a third element shall be considered, and that is the effect upon the public in general. If after defendants have pleaded not guilty and have been given a fair trial by twelve of their fellow-citizens who believe them to be guilty, and the duty devolves upon the court to impose punishment, the court then becomes lenient, listens to pleas for mercy and sympathy and imposes, because of that, a light sentence, it is

heralded immediately among those who are most interested in knowing that one can continue to commit those crimes and those offenses against that particular law, and that if perchance he is caught and if perchance after a skillful defense he is convicted, that then a light sentence will be imposed."

"The Court sentenced Lurie to a year and a day in the Federal penitentiary at Leavenworth and to pay a fine of \$1,000. It sentenced Arthur Rosenberg to one year and six months at Leavenworth for the conspiracy charge, and a year and six months for the perjury charge—the sentences to run concurrently.

"The trial of the other indictments in this case will be very interesting to follow.

Case of Birnbaum

"About six months ago in New York William Birnbaum opened a dress manufacturing establishment under the name of the Theda Dress Company. He established a good credit rating and was able to prove that there was about \$20,000 in capital invested in his business. Birnbaum did what was apparently a brisk business in a well-fitted up establishment.

"Finally the creditors became suspicious when the Theda Dress Company became delinquent in its payments. Birnbaum pleaded temporary slacking in business and outstanding accounts, which he had difficulty in collecting, were responsible for his slow payments. At the same time he pointed to a healthy activity in his shop during a slow season. But when Birnbaum filed a petition in bankruptcy some of the creditors filed a complaint with the association to have Birnbaum investigated for apparent fraud.

"When the preliminary investigation indicated that Birnbaum was a crook, a warrant was sworn out for his arrest. He finally confessed that he had been set up in business by one named Irving J. Mills. Birnbaum confessed that he learned that Mills was crooked after he had been established in business a short time, but that the threats of hired thugs kept him from "squealing."

"All this time a great deal of the goods which came to the Theda Dress Company were re-shipped by Mills' thugs in the shipping department to a concern called the Excello Textile Company. This concern was controlled by Mills and was the outlet for the goods that were fraudulently obtained through the dummy concern, the Theda Dress Company.

Representatives from the American Woolen Company identified at the Excellto loft goods which they had originally shipped to Birnbaum at the Theda Dress Company. Besides, liberty bonds to the amount of \$17,500 which Mills had purchased to set Birnbaum up in business were bought under the name of J. Brown. Later on in court the banker who sold the bonds identified Mills as J. Brown. Furthermore, the hotel register in the Times Square Hotel showed that Mills and Birnbaum had occupied the same room at one time when they were evidently planning and putting through some crooked deal. The relationship between the two crooks was now established and further investigation disclosed liabilities in the dishonest operations of the Theda Dress Company that amounted to about \$100,000.

Assistant United States Attorney Blake called about 150 witnesses after he took the case over from the association for prosecution. Birnbaum had already pleaded guilty, and Mills who had not yet been traced was finally arrested. When he was apprehended he was found living in style and owner of a foreign motor car valued at \$15,000. He is thirty-two years old.

Mills has been operating for about five years in New York and has cost the merchants of the city thousands of dollars through his schemes which he terminated in about six months and then cleared the decks for a new assault on wholesalers and manufacturers. He never used his own name in any fraudulent operation.

Maximum Penalty

A jury found Mills guilty of concealment and of conspiracy to conceal. He was sentenced in the Federal courts by Judge Baltzell to four years in the Federal Penitentiary and was fined \$5,000, the longest sentence which has ever been given under the bankruptcy law in this locality. His dupe, Birnbaum, was sentenced to two years and was fined \$2,500.

Mills covered himself so well that, while he was known to be engineering fake bankruptcies, the merchants of New York could never catch up with him. It seems apparent that the co-operative action of the creditors through the Million Dollar Credit Protection Fund of the National Association of Credit Men has made possible the elimination of one of the biggest bankrupt crooks in New York City.

this is considered desirable. At the same time, a check for the amount of the individual checks cashed will be drawn, on a duly approved voucher charging "Checks Cashed and Exchanged," and will be sent to the bank with the checks to be deposited, in order that a simultaneous withdrawal may be made of the amount paid out in cashing checks. The amount thus withdrawn will be returned to the petty cash fund, which is then reimbursed to its original amount.

Form Illustrated

Separate entry will be made of the amount of the deposit in the deposit column of the Check Register for the bank through which the transactions are handled. A form of such Check Register is shown, with illustrative entries assuming the cashing on January 2, 1927, of checks amounting to \$372.00, and the drawing of check No. 1 for \$372.00 in order to reimburse the fund.

The segregation of checks cashed through petty cash in this manner, and their deposit in a separate bank account from that used for general items, is useful in keeping out of the general bank account complications arising from the cashing of checks later returned by the bank.

Cashing Personal Checks

IT is often necessary in a business organization to provide a means whereby the personal checks of officers and employees may be cashed. If checks are cashed, proper rules should be set up so as to safeguard the interests of the organization, such for instance as requiring approval by an executive officer before payment is made. An

effective method for handling checks cashed in this fashion is described.

At the end of a fiscal day, all checks cashed from the petty cash fund will be summarized and entered in the Cash Receipts Book, crediting an account such as "Checks Cashed and Exchanged," and will be prepared for deposit, in a separate bank account if

TENTH NATIONAL BANK						January, 1927.		
DEPOSITS			Vo. No.	Ck. No.	Payee	Amount of Check	Discount	Total
Date	Ref.	Amount						
Bal. Fwd.	1000.00						
Jan. 2	372.00	614	1	-2- John Doc, Cashier	372.00	.....	372.00

ABRAHAM M. KAUFMAN, a student at Pace Institute, New York, successfully passed the New York State C. P. A. examinations. He is continuing in practice with A. M. Kaufman & Company, accountants and auditors, at their new address, 37 West 39th Street.

W. F. WEISS & CO., certified public accountants, are now located in their new offices at No. 7 Dey Street, New York City.

WILLIAM HENRY HIRSCHMANN, a 1916 Pace graduate, who for many years was connected with the Pace staff, recently passed the New York State C. P. A. examination. At the present time Mr. Hirschmann is in Europe on vacation with his wife.

K. L. HUTCHINSON, an advanced semester student at Pace Institute, New York, recently accepted employment in the accounting department of H. J. Heinz & Company, manufacturers of food products.

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